FACT SHEET | Higher Education Reform Initiative

Seven Major Problems with the Biden Administration's Borrower Bailout

Jonathan Pidluzny | September 1, 2022

MAJOR PROVISIONS OF THE BORROWER BAILOUT

- Approximately 43 million borrowers with federal student loan balances will be eligible for $10,000 in loan cancellation if they make less than $125,000 ($250,000 for households). This includes loans that were in default before the pandemic repayment pause. Those who continued making payments during the pause may apply for a refund.
- Borrowers who received Pell Grants will be eligible for additional relief, up to $20,000.
- The Biden Administration also announced a coming regulation that will establish an income-driven repayment plan that caps payments for eligible borrowers at 5% of their disposable income, raises the threshold for what counts as disposable income, and cancels certain balances after 10 years.

THE ACTION WILL CREATE INFLATIONARY PRESSURES AND COULD LEAVE TAXPAYERS ON THE HOOK FOR UP TO $1 TRILLION

- The Penn Wharton Budget Model estimates that the borrower bailout will cost taxpayers $605 billion over 10 years.
    - The price tag could rise to $1 trillion depending on the details of the new income-driven repayment (IDR) program.
- The borrower bailout is an additional fiscal stimulus when inflation is already at a 40-year high. The action will add further fuel to the inflation fire in the near-term and "create additional inflationary pressure over time."
- According to the Government Accountability Office, the COVID-19 student loan repayment pause, which began in March 2020, has already cost taxpayers $105 billion.
- According to the National Taxpayers Union Foundation, loan cancellation alone (not including the new IDR plan or extended repayment pause) will cost the average taxpayer more than $2,500.
    - An average taxpayer earning $100,000 - $200,000 will be on the hook for almost $3,800.

A BROAD CANCELLATION OF STUDENT DEBT IS UNNECESSARY

- Most student loan balances are manageable.
    - In 2021, 54% of loans issued under the largest federal programs had balances under $20,000 (an additional 21% of loans had balances between $20,000 and $39,999).
    - Only 7% of borrowers owed more than $100,000, but many of those are in high-paying fields with immense lifetime income potential.
- Rates of loan default have historically been much higher among those with low levels of debt (66% of defaulters owed less than $10,000, according to a 2016 study), suggesting that default is high among non-completers and that those who took on higher levels of debt to complete their degrees have the means to repay generally.
- Many pathways that do not require loans are available to those wishing to attend college. The proportion of undergraduate students *not* borrowing under a federal student loan program has increased from 63% in 2010-11 to 74% in 2020-21.
- Income-driven repayment options already exist. They cap monthly loan payments at 10-15% of a borrower's discretionary income.
- Borrower paydown of private student loans during the pandemic, which were not eligible for the repayment pause, *accelerated* according to the Federal Reserve Bank of New York. This suggests blanket cancellation of public student loan debt is unnecessary on hardship grounds.

THE BORROWER BAILOUT REDISTRIBUTES INCOME TO COLLEGE-EDUCATED PROFESSIONALS

- Households with incomes as high as $250,000 are eligible for student loan relief. Professionals in highly compensated sectors, including law and banking, will benefit.
  - Younger borrowers at the beginning of their careers, who earn under $125,000 today but who can expect to be in the top 5% of lifetime earners, will also benefit.
- The cost of the borrower bailout will be borne by *all* taxpayers, including those who did not attend college, made sacrifices to avoid taking on high levels of student loan debt, and have already paid back their loans.
- The Penn Wharton Budget Model estimates that the bottom 40% of earners (those with incomes below $50,795) will receive only 38% of the benefit.
  - Those earning between $50,795 and $82,400 will receive 36% of the benefit.
  - 26% of the benefit will go to households with earnings above $82,400.

THE BORROWER BAILOUT ENCOURAGES MORE OVERBORROWING AND MAKES IT EASIER FOR COLLEGES TO RAISE TUITION

- Loan balances will continue rising for current students when fall tuition bills come due.
  - The Department of Education issues approximately $84 billion in new student loan debt each year. As a result, total outstanding federal student loan debt will quickly return to pre-bailout levels, inciting new calls for additional relief.
- The effect of President Biden's loan cancellation will be to direct even more money into a broken system by signaling to students that some of their loan debt may ultimately be assumed by taxpayers. This incentivizes overspending and allows colleges to raise tuition even more.

THE BORROWER BAILOUT IS UNPOPULAR WITH AMERICANS

- A national survey by Scott Rasmussen asked 1,200 registered voters about a theoretical plan to forgive student debt in late May.
- 71% of respondents either opposed forgiveness or wanted to see eligibility capped below $75,000.
- Only 29% said that "loan forgiveness [is] fair to people who have already paid off their student loans." 35% said it's fair to those who did not attend college.

THE EXECUTIVE BRANCH DOES NOT HAVE THE AUTHORITY TO AUTHORIZE A GENERAL CANCELLATION OF STUDENT DEBT

- The Secretary of Education is claiming the authority to cancel student loan debt under the Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act). However, the law was intended to allow the Department of Education to provide targeted relief, especially to servicemen and women overseas, during a national emergency. The HEROES Act authorizes the Secretary to "waive or modify" Title IV student loans when "necessary in connection with a war or other military operation or national emergency." This is likely an unconstitutional exercise of power that was not delegated to the executive branch by the legislative branch.
- Congressional leaders, including House Speaker Nancy Pelosi, have agreed with this understanding. She explained, "People think that the President of the United States has the power for debt forgiveness. He does not. He can postpone. He can delay. But he does not have that power. That has to be an act of Congress."